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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000666

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DEPT FOR EUR/CARC, EUR/ACE

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TAGS: [ECON](#) [EAIR](#) [EAID](#) [PREL](#) [RS](#) [BE](#) [AM](#)

SUBJECT: ARMENIA'S ECONOMY INSULATED FROM PLANE CRASH,  
OLIGARCH AIRLINE OWNER MAY NOT BE SO LUCKY

REF: A) YEREVAN 623 B) 05 YEREVAN 1986

Classified By: DCM A.F. Godfrey for reasons 1.4 (b,d).

Summary

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11. (C) On May 3, an Armavia flight to Sochi crashed into the Black Sea, killing all 113 aboard. Two days later, a fire in a Brussels maintenance hangar destroyed another Armavia aircraft as well as a second plane owned by another Armenian company. Investigations into both the crash and the fire are ongoing. It appears that the economic impact of the two events will be relatively limited; passenger service is largely restored and arrangements are being made to lease replacement aircraft. The fate of Mikhail Baghdasarov, the oligarch owner of Armavia (and other companies) is less certain. If blame for the crash can be laid at his doorstep, even his close relationship with Defense Minister Sargsian will probably not protect him. End Summary.

12. (C) Despite the relatively low loss of life for such an event, the May 3 crash of an Armavia Airbus A-320 (ref a) was treated as a national calamity. Two days of national mourning were declared and events are still being cancelled nearly two weeks later. The cause of the accident is still not known. Russian Transport Minister Igor Livitin told the press that weather was the most likely cause. We understand that a French-owned bathysphere began the search for the ill-fated aircraft's "black boxes" on May 11. Ongoing storms have hampered the investigation into the causes of the crash and efforts to retrieve the black boxes located 450 meters below the surface of the Black Sea.

13. (C) Executive Director of Armenia International Airports (AIA) Juan Pablo Gechijyan (protect) told us that for an aircraft of this type, blaming the crash on poor weather just does not make sense. He said -- with perfect hindsight -- that Armavia's "safety curve" suggested that such an event was likely. Armavia had three separate incidents in the past months, including one serious mishap on landing in Moscow. He said that blame, if there is any to be spread around, should go to Armavia's owner Mikhail Baghdasarov. Baghdasarov, a local oligarch, became the only shareholder of the company in June 2005, when his company, Mika Armenia Trading LLC purchased the remaining 70 percent of the shares from Siberia Airlines. Oddly enough, Armavia leased the aircraft from the British Government, which became the owner when SibAir defaulted on its loans guaranteed by HMG.

14. (C) Gechijyan said that Baghdasarov was having serious cash flow problems and was in arrears to the airport in excess of USD 1 million for landing fees and other charges. Gechijyan speculated that Baghdasarov's pattern of delaying payments for fuel deliveries (ref b) was probably repeated with managing training for pilots as well as paying wages and for routine maintenance. This poor management style could have led to a confluence of various factors in a "perfect storm" to bring about the tragic crash. Armavia Press Secretary Jasmine Vilyan told us, however, that the plane was

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well maintained and had undergone capital maintenance by Lufthansa in Budapest. The Civil Aviation Authority confirmed this information.

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INSURANCE INDEMNITY LIKELY  
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15. (SBU) Armavia Airlines carried insurance for the flight with Armenian Grand Insurance Company, which reinsured its risks with 14 London-based reinsurance companies. The reinsurance companies appointed Airclaims and Beaumont and Son to determine appropriate levels of compensation in this case. The GOAM has also provided AMD 1.5 million (USD 3,300) to the relatives of passengers and crew for funeral expenses and has opened a special account for private donations (currently valued at USD 100,000) to support families of crash victims.

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HANGAR FIRE IN BRUSSELS  
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16. (C) On May 5, just two days after the Sochi crash, a hangar fire in Brussels which destroyed four planes including an Armavia A-320 and an Armenian International Airlines plane leased to Air Arab. According to the Armenian Embassy in Belgium, the fire was caused by a short circuit which ignited an alcohol-based cleaning fluid being used on one of the plane's wings. A local insurance expert, however, disputed this and said that Belgian investigators are seeking evidence of arson.

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ARMAVIA WILL LEASE THREE NEW AIRBUSES  
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17. (SBU) Armavia announced on May 6 that it plans to lease three new Airbus planes. The first one, an Airbus A-319, is scheduled to arrive in Armenia by May 15. The arrival date for the two other planes, Airbus A-320s, has not yet been set. Armavia currently has one Airbus A-320, two A-319s, an Il-86, a Yak-42 and a Yak-40.

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COMMENT  
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18. (C) The long-term economic impact of these events on the Armenian economy is likely to be limited. The economic impact on Armavia's owner, Baghdasarov, may be far more serious. Baghdasarov's economic empire has suffered from a poor cash flow for a number of months (ref B). Baghdasarov's long-time association with Defense Minister Sargsian might not be enough to keep him out of trouble this time.

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